RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Jan. 6, 1993 **LETTER 1112**

PRICE ACTION: As we enter the New Year the major composite indices and averages have hit record highs -- but the Dow still refuses to confirm. Many analysts are dismissing this flagrant non-confirmation, excusing it by saying that "there are too many wounded dinosaurs in the Dow -- therefore, the non-confirmation isn't significant."

My own inclination is not to dismiss the lagging performance of the Dow. When giant D-J corporations such as Amer. Express, Chevron, IBM, GM, Westinghouse, Boeing, Kodak, Texaco are struggling (pricewise) or are far from their highs, it's never a great idea to say that "everything's great, so onward and upwards."

Back in 1968 the S&P 500 rallied to a record high amid frenzied speculation in the secondary issues. But in '68 the Dow refused to confirm the S&P. The Dow's 1968 high was 985.21, ten points under 1966's record high of 995.15. The trouble started in 1969. By December 1970 the Dow had collapsed back to 631.16.

One remarkable aspect of recent months has been the extremely narrow spread, day after day, between advances and declines on the NYSE. Over the last 75 days I think there was a single day in which we saw a two-to-one ratio of advances over declines. Such a narrow spread in the advances and declines means that there has been a lot of distribution, even while the market was pushing higher. This narrow breadth action is often seen near or at market tops.

If I had to describe or sum up the closing market of 1992 in a single phrase, the words I would chose would be "severely overvalued." Which I guess bothers me no end because being a child of the Great Depression, I grew up with a predilection for bargains.

MORE ON VALUES: In Letter 1110 (page 3) I included a short piece about Patrick Dolan's formula for appraising stock values. Last week I received a FAX from Mr. Dolan, and I must say it was fascinating. Dolan has made use of 64 years of stock market data on the S&P 400 Industrial Index. This Average includes 400 of the largest publicly traded industrial firms in the US (these 400 are also included in the S&P 500 Index).

Dolan than set out to create a valuation method or common denominator so that all previous highs and lows in the S&P 400 could be properly compared as to valuation -- going back to 1926 when the S&P 400 was first compiled.

Dolan used the following items, which were averaged: (1) Return on equity; (2) Year-end price divided by year-end book value ratio; (3) Year-end price/earnings ratio; (4) Dividend payout ratio; (5) Dividend yield.

A formula was then developed which included (a) the actual average of the book value of the Index in each year (1926 to 1992) and (b) the five items listed above. These computations produced a valuation formula.

The price of the S&P 400 could then be divided by the formula price to provide a valuation for the S&P 400 at any given time.

The results are fascinating. There are only six years in history (going back to 1926) when the valuation formula rose over 1.60.

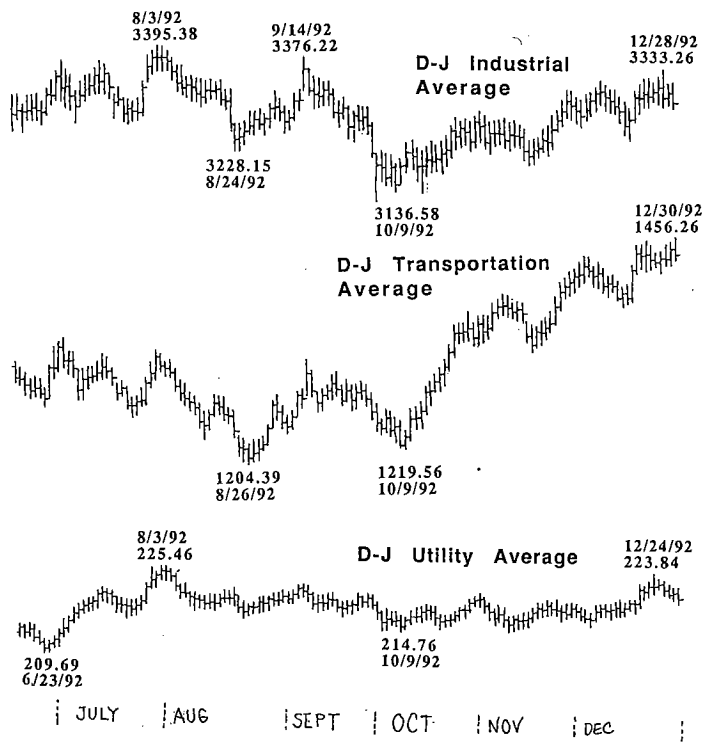
Dec. 24 DJIA 3326.24; PTI 3649; A-D Ratio -8.21
Dec. 31 DJIA 3301.11; PTI 3653; A-D Ratio -7.90
Dow Yield: 3.14%; Dow Price/Earnings: 44.2
Dow 200-day MA: 3293; Dow 30-day MA: 3302
Dow Times Book Value: 2.53; PTI 89-day MA: 3588
Percentage of Undervalued Blue-chips: 8%
Low Risk Buy Index: +101

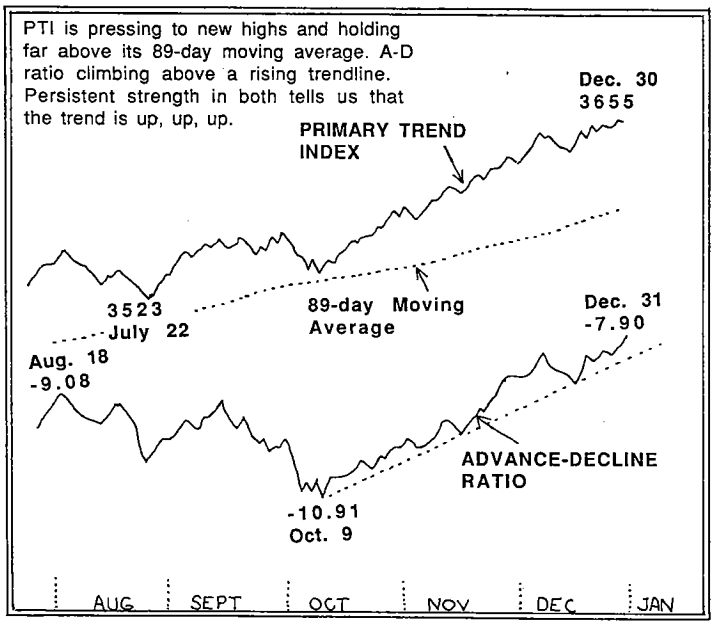
These years were **1928** when the valuation at the stock market high hit 1.67. In **1929** at the market high the valuation hit 1.91. In **1987** at the market high the valuation hit 1.90. In **1989** at the market high the valuation hit 1.85. In **1991** at the high the valuation stood at 1.96.

Where are we today in 1992? At the current price of 296, the S&P 400 stands at a record **2.02** on the Dolan valuation formula. Never before has the S&P been above 2.0, so the conclusion is that today's stock market is the most expensive in history.

What, exactly, does that mean? It means that stocks, at today's valuation, are discounting the future more optimistically than at any time since 1926. All right, why is this significant? It's significant because once the market has fully discounted the BEST THAT CAN BE SEEN AHEAD, the bull market is over, and a bear market begins.

Only one question now remains. The question: can the market become even more optimistic regarding the future and will prices push even higher into the zone of extreme overvaluation? And the answer is -- yes, of course it can. The market can do anything, and there's no way to gauge exactly how enthusiastic and frenzied the market can get. Or as Robert Rhea, the great Dow Theorist of the 1930s put it, "How hot is hot?"





What does all this mean for my subscribers? It simply means that we are at an extreme in market history -- never before have stock buyers paid so much for stocks. When it can't get any better, you're at the top. And at today's inflated prices, we are nearing the point where it can't get any better.

One final thought: the yield on the S&P 400 is now 2.51%. This is the third lowest yield in history [the only lower yields were in 1987 (2.22%) and 1972 (2.42%)]. At the current yield, investors are paying $38.80 for each dollar of S&P Industrial dividends. Wow!

PRIMARY TREND INDEX: So much for valuation and overvaluation. But there are times in history when the market seems to take on "a life of its own." By that I mean that there are times when the market seems to be listening or reacting to nothing but its own beat. Values are forgotten, caution is thrown to the wind, history is ignored, the market trend literally takes on a life of its own.

Accordingly, I defer to my Primary Trend Index. The PTI doesn't take values into account, it doesn't care a bit about sentiment, yields, short interest, bond prices, put/call ratios or anything else except the movement of eight "action-of-the-market" indicators. Other advisors are watching the PTI and scratching their heads. John McGinley in his excellent *Technical Trends* report noted last week: *"Russell's Primary Trend Index continues to confound the experts -- including this one (sic!). It's pulling away from its 89-day moving average despite the A-D weakness. Can't account for it. Can't argue with it."*

In short, the PTI possesses an extraordinary ability to track the underlying TREND of the market. In effect, the PTI is saying that when the majority of these eight indicators are rising, the pressure under the market is to the upside -- and the trend is bullish. When the majority of these eight indicators is falling, then despite anything and everything, the pressure under the market is to the downside, and the trend is bearish.

I have tabulated and followed the PTI daily since 1971. According to the PTI, the great bull market began in December 1974 at a PTI value of 578. Since 1974 we have never experienced what I would term a major bear market in the PTI. We have had corrections and interruptions, but never a major, extended bear market.

I don't use the PTI for predictive purposes, I use it to tell me what's happening. I've included in this Letter (page 3) a chart of the PTI going back to 1990 (the Dow and the A-D ratio are shown on the same chart). This chart traces the remarkable climb of the PTI, from a value of 3122 on January 14, 1991, to over 3600 at present.

I consider the PTI to be in a bull trend as long as it's climbing and more importantly climbing above its 89-day moving average. As you can see on the page 2 chart and on this longer-term chart, the PTI continues to climb and continues in the bullish mode.

Personally, I must admit that I'm fascinated to see how far this market can rise in the face of the highest level of overvaluation in stock market history. Yes, I think there is phenomenal public participation in this market. Yes, I believe this is the most expensive market in history. And yes, I think the market looks dangerous in that the Dow has not confirmed the new record highs in the other broader composite averages.

But I guess you could call this the "Jackie Gleason market." You remember when Jackie would raise his fist and shout, "To the moon, Alice!" That seems to be what this market is saying and it seems to be what the frenzied buying public believes. As long as people throw money at the mutual funds, the funds will feel obligated to spend that money. Thus, the Jackie Gleason market heads moonward, and my PTI continues to point the way. Hold your hat, dear subscribers -- we're evidently going to the moon.

INVESTMENT POSITION: The stock market seems to sense the extreme overvaluation in the blue-chips. Consequently, there is a frantic search for "undiscovered" bargains or some new issue that may turn out to be "the next Microsoft." Nevertheless, in spite of the historically high valuations, my PTI continues in the bull mode, but I'm going to stay with the question mark for as long as the Dow fails to confirm.

Russell hints for 1993, 1994 and beyond. There is only one SURE way of becoming wealthy (or at least well-off). It's called compounding. But in order to compound, you must save. Unfortunately, you can't make money compounding debt (on the other hand, you can go broke compounding debt).

In order to save, it helps tremendously to owe nobody anything. Believe me, it's a pleasure not to send that monthly check to the bank for your mortgage-payment or to VISA or Mastercard for something you bought six months ago. The old adage tells us that "money makes money." It's the truth.

Now for the Russell opinion of the two biggest bargains around: (1) Renting a house instead of buying. Example: a friend called to tell me that he just rented a house in Vermont for $2,200 a month. The same house is for sale at $2 million. Figuring 10% for mortgage and annual upkeep and repairs, that house would cost a buyer around $200,000 a year to carry, or over $16,000 a month. Rent it for $2,200 a month -- a super-bargain. But don't get me wrong, a house can be a pleasure to own and live in; I'm simply saying that owning a house is uneconomic (yeah, I own my house).

(2) Paying off your debt. Most debt will run you anywhere from 8% to 12% a year to carry. With stock valuations sky-high and T-bonds yielding 7%, paying off your debt is a bargain. Personally, I like to have no debt at all. The more debt you carry, the harder it is to save. Think this way -- any time you borrow, someone else is making money on your time and labor. Any time you save, you are making money from someone else's time and labor. It may be more blessed to give than receive -- but not when your dealing with interest.

Hold your investment powder dry as we move into 1993. I predicted early last year that 1992 would be "the year of surprises." Now I'm predicting that 1993 will be "the year of changes" (but not necessarily the changes that Mr. Clinton is promising).

RICH MAN, POOR MAN: Back in Letter 844 (Sept. 22, 1982) I wrote a piece with the above title. I've had more requests for that piece than anything else I've written since 1958. Since this is the beginning of a new year and since I have many new subscribers, I feel that this is a good time to repeat Rich Man, Poor Man (with a few additions). So saying, here goes:

In the investment world, the wealthy individual has one major advantage over the "little guy," the stock market amateur and the neophyte speculator. The advantage that the wealthy investor has is that HE DOESN'T NEED THE MARKET. I can't begin to tell you what a huge difference that makes, both in one's mental attitude and in the actual handling of one's account.

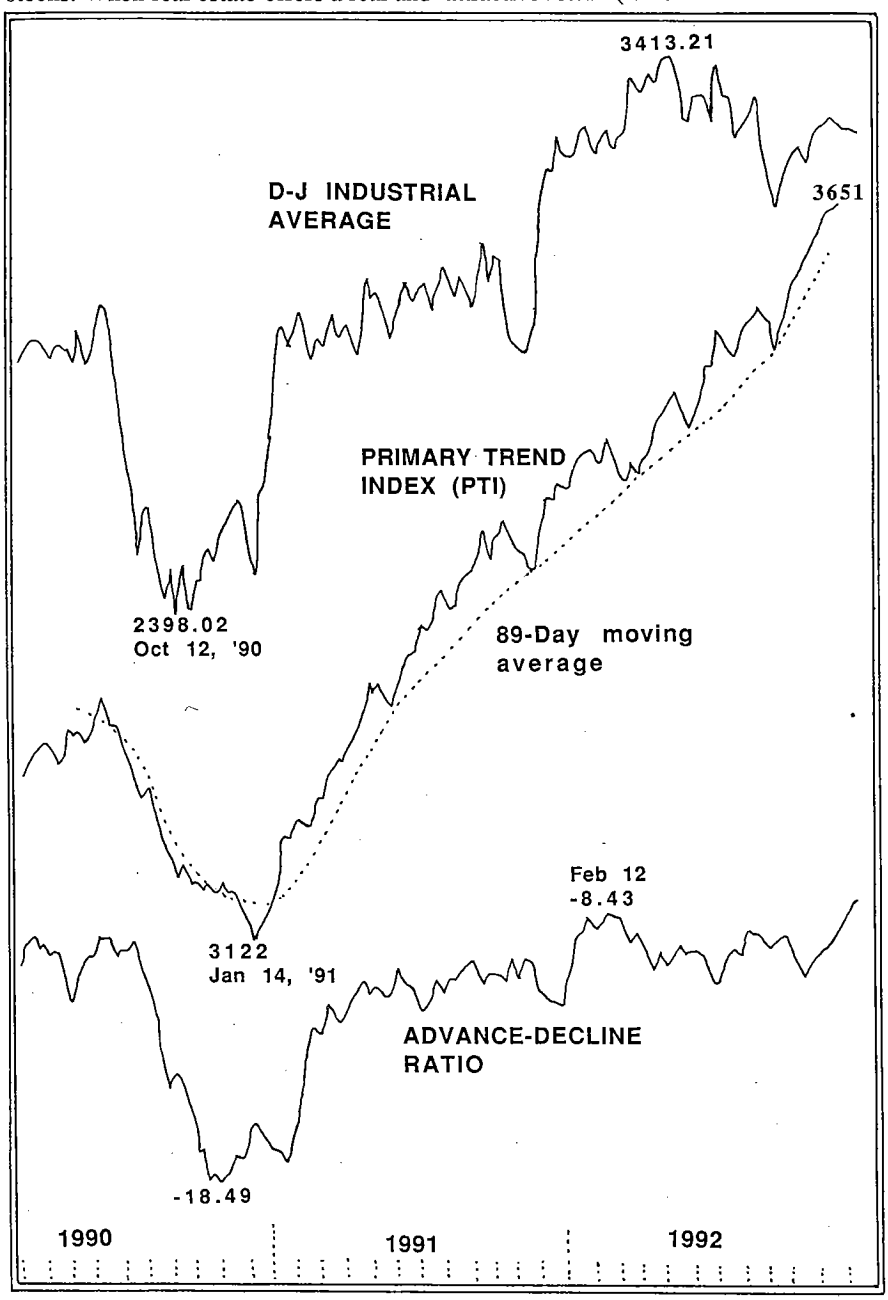
The wealthy investor doesn't need the market because he already has all the income he needs. He has money coming in via bonds, T-bills, money market funds, stocks, and real estate. In other words, the wealthy investor never feels pressured to "make money" in the market.

The wealthy investor possesses another major advantage -- he tends to be an expert on **VALUES.** When bonds are cheap and bond yields are high, he buys bonds. When stocks are on the bargain table and stock yields are averaging 6% or more, he buys stocks. When real estate offers a real and attractive return (which means when it is depressed), he buys real estate. When great art or fine jewelry is on the "giveaway table," the wealthy investor becomes a collector.

In other words, the wealthy individual puts his money where the values are. And if there are no outstanding values, the wealthy investor waits. He can afford to wait. He has money coming in daily, weekly, monthly. It boils down to this -- he doesn't need the market. He knows what he is looking for, and he doesn't mind waiting weeks, months, even years (in the investment business this is known as patience).

What about the little guy? This fellow always feels pressured to "make money." He tries to force the market "to do something for him." When this fellow isn't buying stocks yielding 2%, he's off to Las Vegas or Atlantic City at the crap tables, or he's spending ten bucks on a handful of lottery tickets, or he's "investing" in some crackpot real estate scheme that a fellow on his bowling team told him about.

And because the little guy is forcing the market to "do something for him," he's a consistent and chronic loser. The little guy doesn't understand values so he's always overpaying or buying at the wrong time. He loves to gamble, so he always has the odds against him. He doesn't understand compounding, and he doesn't understand money. He's the typical American, and he's perpetually in debt.



The little guy's in hock, and he's always sweating -- sweating to make the payments on his house, his refrigerator, his car or his lawn mower. He tells himself that he's got to make money fast. And he dreams of the "big bucks," that big jackpot in the sky.

In the end the little guy wastes his money in the market, he loses his money in gambling, or he dribbles it away on senseless schemes. In brief, this "money-nerd" spend his life running up the down-escalator.

Now here's the ironic part of it. If, from the beginning, the little guy had adopted a strict policy of never spending more than his income, if he had then taken that extra income and compounded it in safe, income-producing securities -- in due time he'd have money coming in daily, weekly and monthly just like the wealthy investors. And in due time he'd start thinking and acting like the rich guy. In short, the little guy would become a financial winner instead of a chronic loser.

Here are a few Russell definitions that you might find useful or at least interesting: Being comfortable financially is being debt-less, owing nobody anything, having money coming in and being able to reinvest that money, all the while living on your salary or your business.

Technically rich: Being in a situation where you can lose your job or your business, but still having enough outside income so that the loss of your job or business makes no difference in your standard of living.

Just plain rich: Having $5 million in income-producing assets (no debt), and living in rural America. Or having $10 million or more in income-producing assets (again no debt) while living in a major city or an upscale suburb.

Wait -- my old red-headed friend and commodity expert, R.E. McMasters, offers still another definition. He says, "If you're healthy, you're wealthy." R.E. and I both know the truth of that one, right R.E?

PRE-DETERMINISM: It's only human nature. Investors thirst for certainty. They want to know what's going to happen. And they will listen to anyone who promises them "the answer." As a rule, the more positive the prophet, the larger his audience (at least, until the prophet's predictions prove to be wrong).

My experience with pre-determinism in the markets hasn't been a very good one. Consequently, I have come up with a few rules and observations. Here they are: (1) The more certain the prophet, the bigger the quack; (2) Anyone, no matter how great his record or his credentials, can be dead wrong about the market; (3) It's more frightening to follow the market rather than it is to follow a guru, because "the market can do anything," and that's not what people want. What do people want? They want the market to follow a definite scenario, and, of course, the market seldom obliges.

Over the years I guess I've studied about every market system available. Many of the systems are based on cycles or periodicity or some other pre-deterministic method. I've found that occasionally one system or another appears to work -- but just about the time you take a position based on one of these systems, the system fails ("Cycle, where were you when I needed you?"). Therefore, I've found there is only one market expert -- it's the action of the market itself (that's why I invented my PTI).

It's best to keep a totally open mind about the markets. Sure, markets can do anything, and they usually do. But unfortunately, they do it when its least convenient for your pocketbook.

Values will ultimately rule the markets, but, unfortunately, values will not help you in anything like precise timing.

Once a major trend gets underway, it will often travel farther than anyone thinks possible (substitute usually for often in this sentence).

Markets often move contrary to what is expected, and when they do they are invariably discounting events not yet known to the public.

Never tell yourself that what you know ("inside information") is not known by the market. Nine times out of ten your "inside information" is known by the market and already discounted.

Or (and this is ironic) you may actually have the inside track on a forthcoming news item -- but you can never be sure how the market will react to that news.

NOTES & QUOTES: Is the public in the market? Are they in a buying-frenzy despite the highest stock valuations in history? Read on (from the Dec. 21 *USA Today*): "Investors literally threw their money at mutual funds this year. Steamed by falling interest rates that resulted in tepid yields on CD and money market funds, they poured money into stock and bond funds at a pace that will eclipse 1986's record. The Investment Company Institute estimates net purchases of mutual fund shares this year will reach $192 billion, a 29% surge over 1986's $149 billion."

* *

As veteran readers know, I've always felt that Dow Jones Inc. was kind of "out of it." D-J still refuses to use photographs (they stick with line cuts), they still basically snub the technical side of the market, and they allowed a new newspaper, *Investors Business Daily*, to scoop them by providing dozens of innovations that Dow Jones should have introduced years ago.

Now Dow Jones makes another major mistake. They've removed Alan Abelson as editor of *Barron's*. Abelson, besides the *Barron's* statistics, is a major reason why the investment fraternity reads *Barron's*. He's a brilliant workaholic, and I can't imagine bringing any other editor in and calling it an improvement. Ah well, if our government can be stupid, why not the people who run Dow Jones.

* *

Speaking of editorial changes, have you seen the new *New Yorker* magazine? It gets better with every issue. Stories I actually want to read, cartoons that are finally funny, color, excitement. All hail to their brilliant new lady editor. It's about time.

* *

I must agree with Louis Rukeyser's recent column when he described the recent Clinton seminar as "stacked with cookie-cutter thinkers, big-buck campaign contributors, and a boot-licking batch of corporate and union executives seeking favors from the new crowd in Washington." Added Louis, "Already federal spending and taxes are heading out of control again. At 24%, government spending's share of the economy is higher than when Carter left office; the increase in domestic spending since 1989 has been the fastest in three decades, Federal taxes are higher now than in 1980; if you add in state and local taxes . . . the tax load is the highest ever . . . All the talk in the world about the undoubted need for more savings and investment will become meaningless if Clinton pursues punitive taxation of those with investable funds and even-greater, more costly governmental intrusion into private business."

Russell comment: "It's the deficit, stupid." Clinton's got a problem. In his election campaign he promised to "grow the economy," but he also promised to cut the deficit in half within four years. He can't do both. Recently he was asked what he would do if he found that he couldn't stimulate without increasing the deficit. Said Clinton, "My inclination would be to increase spending less." Clinton also promised a tax cut for the middle class, but now he is quietly dropping all talk of that kind of cut. Is Clinton going to concentrate on cutting the deficit? If so, he will have to pare the entitlements and cut the military, there is no other way.

Clinton's concentration on deficit reduction has the liberal *NY Times* in a tizzy. In their Dec. 27 lead editorial, the *Times* wrote: *"Mr. Clinton promised to be a different kind of Democrat, one who pays attention to the need for investment and growth. But he also said he'd sacrifice his investment program before he'd raise taxes on the middle class. Now he says he'll sacrifice investment to hit his deficit target. He seems on the verge of ripping out the heart of his program -- the program that attracted many Americans to his cause."*

The fact is that Clinton is now learning a basic mathematical truth -- two and two still equals four. Clinton does seem to be aware that the deficits are eating this nation up alive. But unfortunately, you can't cut deficits by spending more. That may come as a shock to Clinton. Readers of these Letters have known it all along.

Two Clinton appointments could be very significant -- Leon Panetta as budget director and Alice Rivlin as deputy. These two are at the forefront of honest depiction of the federal budget (as opposed to the deceit, hypocrisy, fudging and plain lying that we've had to put up with for so long). Both Panetta and Rivlin disagreed with the math of Clinton's own economic program, suggesting that the promises as to taxing, spending, and deficit didn't add up (which, of course, they didn't). To his credit Clinton said of Panetta, "I'm going to give him a chance to teach me some math. To get the country back towards honest discourse on these subjects would perhaps be the greatest gift of all." Russell comment: Amen. I've been saying for years that the first thing we have to do about the federal deficit is to stop lying about it. The fact is that over the last 12 months the US added $389 billion to the national debt, and that's a conservative figure for the real deficit. But wait, the real deficit is higher (remember, $60 billion was "borrowed" from the Social Security trust in order to make the picture look better). Counting the SS borrowing, the real deficit was $449 billion. But wait again, according to the Fed's flow of funds and including the huge "off budget" spending, the REAL deficit (adding in all the cover-ups), was $558 billion.

* *

A Dec. 24 op-ed piece in the Dec. 21 *WSJ* by Ronald McKinnon was entitled, "A Fiscal Stimulus Won't Work." McKinnon notes, "Since 1980 the federal government's budget has been out of control and accompanied by a string of broken promises to eliminate or narrow the budget deficit, which has ballooned in 1992 to about 5% of GDP. The stock of marketable T-bills and bonds is

now approaching 50% of GDP." McKinnon says the way to go is to "gradually broaden the tax base and sharply curb rates of increase in spending . . . If, however, Clinton threatens to raise marginal income-tax rates on the wealthy who are major bond buyers, this beneficial outcome could be largely offset . . . if the president heeds the call for fiscal stimulus. . . he will approach his second term with the public finances completely out of control and the economy performing even less satisfactorily than now."

* *

A subscriber writes, "All taxes are dis-incentives, but a tax based on income is the worst dis-incentive." Russell comment: I agree. Rumor -- the Clinton crowd will impose a consumption tax (maybe a sales tax or a VAT type tax) on all of us. This new tax will help to pay for the possible new goodies that our government will give us.

* *

Steve Ross, chairman of massive Time Warner, died of prostate cancer two weeks ago. His estate will receive more than $300 million in various payments from Time Warner. Ross' death brought back memories. Ross' climb to fame and fortune started way back in 1954 when he married a very bright girl that I knew, Ellen Rosenthal. Ellen's father owned the highly successful and well-known Riverside funeral parlor. Ellen went to school at Fieldstone, in NYC, and I used to see her coming to school with her father in a big, black limousine. Her father was a little hunchback man, and I used to feel very sorry for both Ellen and her wealthy but handicapped father.

Ross started as funeral director for his father-in-law, but he noticed that the company's fleet of funeral limousines stood unused at night. Ross' idea -- start a limousine service and rent out the limos at night. Add a few parking lots, and it became Abbey Rentals and later Kinney Service. In 1962 Ross took Kinney Service public. In 1969 Ross bought Warner Bros. studios, and he was on his way, big time. Warner bought numerous cable companies and stepped up to became Warner Communications. In 1990 Ross engineered the merger with Time Inc., and Time Warner was born with Steve Ross as Chairman. I've followed Ross' career with interest through the years, but I still remember Ellen Rosenthal and her bent-over father, walking hand in hand down Central Park West. Ross later divorced Ellen (or she divorced him), but Ellen and the Riverside Funeral Parlor is truly the way it all started. Ross, a man who craved love and fame, died a few weeks ago. It's been a long journey, with, believe me, many broken hearts along the way.

* *

Do you believe the government's 2-3% inflation figures? *Sindlinger* says inflation is 10%. Says Sindlinger, "a good part of the difference . . . is accounted for by the Sindlinger figures encompassing the costs of rising local taxes and insurance, particularly auto and health insurance not fully accounted for in the CPI."

* *

The *Silver & Gold Report* (PO Box 2923, W. Palm Beach, FL 33402) periodically checks dozens of precious metal dealers for honesty, service and good prices. Here are two they recommend highly: Sam Sloat, Inc., 606 Post Road East, PO Box 192, Westport, CT 06881 [(800) 243-5670]. They say, "This firm is a favorite of ours; it has served us for 17 years." Another they like is Camino Coin, 875 Mahler Road #150, Burlingame, CA 94011 [(800) 348-8001 or in CA (800) 348-3001)]. The *S&G Report* says, "Honest, Straightforward and reliable . . . extremely competitive for both krugerrands and gold maple leafs." You can order gold coins by mail from either of these firms.

* *

Health: At age 90 my mother fell down and broke her hip. That was the beginning of her deterioration. She died at age 92. This year in the US 280,000 people will suffer from hip fractures. Three-fourths will be women and an amazing 87% will be 65 or older. So subscribers who are 65 or older, please be careful. Don't fix your eyes straight ahead -- look down too, particularly where stairs or curbs are concerned.

* *

Many doctors have pooh-poohed vitamins over the years. One well-known Mt. Sinai doctor in NYC states that high dosages of vitamins just produces "expensive urine." Don't believe it. Some vitamins, it is thought, serve as antioxidants and they tend to prevent fat build-up in the arteries. These are vitamins A, C and E. I just spoke to a doctor who is in the forefront of research here at the Lipid Research Clinic at UCSD, and he told me that they are going to run a program in which the participants will take at least 800 mg. of vitamin E daily. It is said that in previous tests, high daily intake of E has cut incidents of heart attacks up to 50%.

* *

A current issue of the British *Economist* asks whether the US intends to be "policeman to the world." Here's what Eliot Janeway says about Somalia. "The Somalia Trap: Bush laid it for Clinton with malice aforethought. And Clinton fell for it like a rube . . . Clinton has been trapped with intent into an endless, unmanageable mess. Moreover, he lost any chance to complain when he approved of the procedure . . . His best chance of working his way out would seem to lie in cajoling or frankly playing off other countries to dispatch small missions of their own to this God-forsaken death trap and to pull the marines out gradually as replacements come in." Russell comment: Could Bush be this cynical? Mmm, it wouldn't surprise me.

* *

Here's an interesting and significant comment from Brad Perry of the *Babson Enterprise Fund:* The most popular stock on the NYSE in terms of price/earnings ratios in each of the past nine years had declined since then by an average of 28%. Perry adds, "This shows that the stocks which attract the greatest enthusiasm turn out to be very poor investments." Russell comment: Maybe that explains what's happened to IBM. Mmm, could it happen to Microsoft?

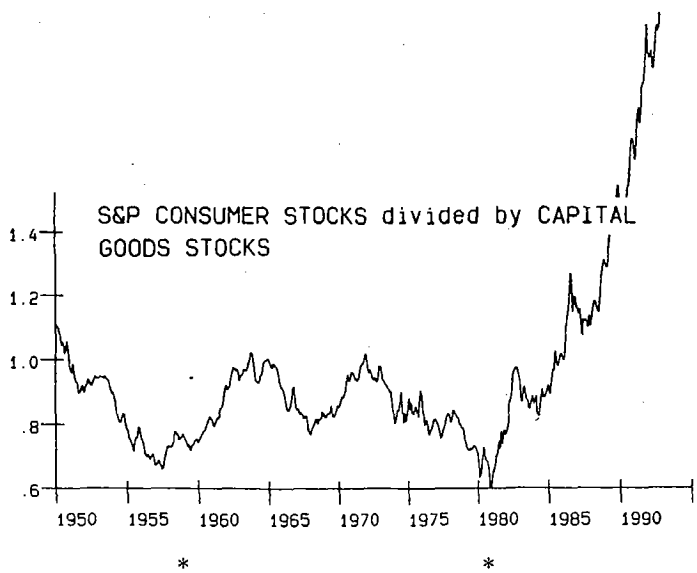
* *

The first wave of muni bond redemptions hit last July when a huge $14 billion of redemptions struck the market. In the first two weeks of January another $10 billion of muni bonds will be redeemed. This will result in a drop of $600 million in interest for muni bond investors.

* *

The Tokyo market closed the year down 56.5% from its 1989 closing peak of 38,915, and down 26.4% from its 1991 closing high of 22,983. Faring a lot better, London's Financial Times 100 closed the year at a record high of 2,847.80.

* *



* *

This rather amazing chart is from the latest mailings of Mr. Ed Hyman, one of the presiding geniuses at *ISI*. Here we see a record ratio in favor of consumer stocks over capital good stocks. President-elect Clinton says he wants America to produce more and maybe consume less. If that's what we're heading into, you wouldn't know it from this chart. Could it be true -- that Americans are just fated to sell hamburgers and houses to each other while the rest of the world produces cars and generators and TV sets. But seriously, you would think this ratio is "blowing its top" and that it should start heading the other way soon. If it doesn't, well, have a pizza.

* *

The population of the US is now 256 million (probably a lot more if you add in all the illegal aliens in California and Texas plus all the homeless men and women wandering around our cities). Nevada (with no state income tax) led the nation with a 3.5% increase in population over the last year. Alaska (almost no state taxes) was next with a 2.9% increase. Colorado and Idaho were up a fat 2.7%. Washington (no state income tax) was up 2.5% (Gosh, it really looks like people have had it with taxes). Only Connecticut and DC actually lost population (DC probably lost population on murders alone). California (where one out of every eight Americans now live) was up only 0.5%, But last year 212,000 people left the Golden State. Wyoming with the lowest total population of any state (only 488,000) picked up 1.4%. They say if you can live through a Wyoming winter, buddy, you're a resident. Hawaii (it's the state where people live the longest) has a population of 1.18 million and it picked up 2.0% last year. Californians are escaping to Oregon, pop. 2.9 million, and Oregon picked up 1.9% in the last year. They say that if you're moving from California to Oregon, don't tell the Oregonians where you came from (if you do, you risk getting shot or at best snubbed).

* *

The S&L affair is not over. Mr. Clinton will have no choice but to come up with the remainder of the bailout money. The House refused to vote for any more money. But unless the RTC gets new money in '93, it will be forced to break its "sacred" promise to guarantee deposits. Nobody is quite sure how much more money is needed. RTC Chairman says they need another $20 billion to finish the job, but the Director of the Office of Thrift Supervision (Timothy Ryan) says it will be more like $50 billion. I'm betting that Ryan has it right.

* *

Financial World magazine (a mag that I like) comes up with their choices for the best companies in various industries. Here's a sampling of their choices of the very best: Apparel -- Liz Claiborne; Autos -- Chrysler; Broadcasting -- Turner; Brokerage -- Morgan Stanley; Commercial construction -- Fluor; Computer hardware -- Apple; Drugs and discount retailing -- K-mart; Elect. equipment -- GE; Food processors -- Kellogg; Integrated Oil -- Amoco; Movies -- Disney; Publishing -- Knight-Ridder; Rails -- CSX; Regional banking -- Banc One; Soft drinks -- Pepsi; Specialty chemicals -- Loctite; Waste management -- Safety-Kleen. Own a piece of each and you'll have the best America has to offer.

* *

At any rate, let's bid a resounding good bye to 1992. Personally, I thought Bush was a real loser -- he never really understood what was happening here in the states. And I was singularly unimpressed with his supposed "foreign affairs" prowess. Perot was a weirdo, slightly paranoid and a man who melted with the political heat. Now we've got Bill Clinton. He's got brains, and he talks endlessly. But he can't seem to decide whether he's a liberal Democrat or a revised, conservative, face-the-tough facts Democrat. Clinton, I believe, is just a bit shocked by the real figures on the deficit (which he's beginning to absorb) and by the magnitude of the problems facing him in the international sphere. I suspect that Hillary has more brains than Bill. She'll be a major influence on the president, but which way she'll influence him I'm not sure (I've got a wife who's also a lawyer, and I can tell you, lady lawyers tend to be smart and tough).

GOLD: Spot gold on Monday, January 4, broke $5 to 328. But Steve Briese who writes the "Bullish Review" [(612) 423-4949] has some interesting things to say about gold. *"This has been a very quiet market for 7 consecutive weeks . . . Both price and trader positions have remained stagnant. Surprise moves tend to come out of just such 'neglected' markets."* He notes that commercials now have a net long position in gold (commercials are very large interests as opposed to smaller speculators and traders). Steve adds, *"Over the last four years a new down leg in the gold market has never begun with the commercials holding a net long position (as they do now). You may want to pay a little closer attention to the gold market over the next two weeks."*

That's it; interest in gold has never been lower, nobody expects anything except more downside erosion. Have gold-philes ever suffered for so long? Gold, gold, you're making us old.

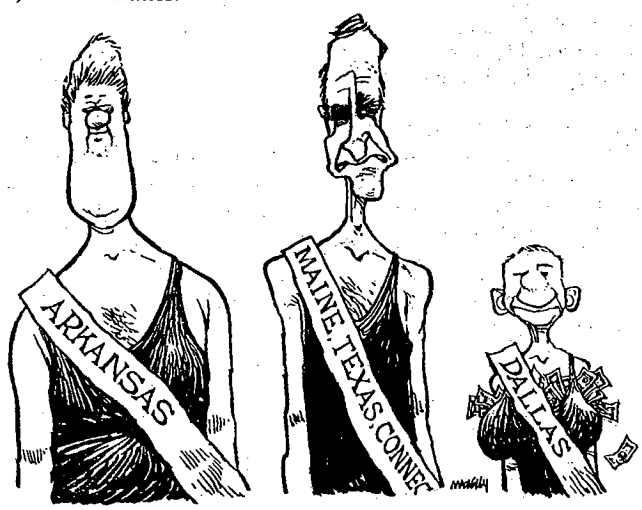
LATE NOTES: The PTI hit a new record high (3655) on December 30. Confirming this action, the advance-decline ratio, since mid-October, has been rising on a trendline basis (see page 2 chart). As long as we continue to get new PTI highs and as long as the A-D ratio respects that rising trendline -- there's no argument, the trend is up.

Meanwhile, the Dow continues to show remarkable and stubborn resistance to moving towards its record high (the high was 3413.21 recorded last June 1). What does this continuing non-confirmation by the Dow mean? I know what it meant in 1968, but will 1993 be a repeat of the fiasco that followed the '68 top? Only time will tell.

The "percentage of blue-chip stocks that are undervalued" has now sunk to 8%, the lowest level in its 27-year history. These figures are computed by *Investment Quality Trends* (located here in La Jolla). This percentage figure appear on the front page of each issue of this report. Says *IQ Trends* in their latest issue, "Any way we look at it, 1992 was a tough year for both investors and savers. The stock market was too high to satisfy investors and interest rates were too low to satisfy savers. Unfortunately, 1993 promises to be even worse."

I spent most of last weekend reading a two-foot pile of newspaper, magazines and brokerage and analysts' reports. The predictions for 1993 are almost unanimous: Slightly higher short-term interest rates, a stronger dollar, continued strength in the secondary and smaller-cap stocks, continued but subdued growth in the US economy.

Ah, and last but not least, a Superbowl victory for either Dallas or the '49ers. Me, I question all of it. San Diego's amazing Chargers, by the way, with last week's shutout of the Chiefs, have beaten the point spread for 14 consecutive games. This is a record that will probably never be seen again in pro football -- or in any other sport, for that matter.



Here they are -- the fellow in the middle never found out what was going on in the US, so he was dumped. The guy on the right couldn't take the political heat, so he was waived. Which leaves us with the fellow on the far left, Big Bill Clinton. He loves people (particularly if they're voters), and the more people the better. Like Reagan and Bush before him, Big Bill will ask for the line-item veto. If Congress gives it to him, he'll have a chance to cut out a mountain of pork and perks. Of course, that threatens the hell out of Congress ("Help, there goes my meal ticket"), so it will be most interesting to see if our new populist president gets the long sought-after line-item veto. Good luck, Big Bill, and let the honeymoon begin.